

## § 1.1451-2

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a credit against the total amount of income tax due. See also section 32. The tax so paid by the corporation upon tax-free covenant bond interest payable to a domestic or resident fiduciary and allocable to any nonresident alien beneficiary under section 652 or 662 is allowable, pro rata, as a credit against:

(i) The tax required to be withheld by the fiduciary in accordance with paragraph (f) of § 1.1441-3 from the income of the beneficiary, and

(ii) The total income tax computed in the return of the beneficiary, as indicated in paragraph (a) of § 1.1462-1.

(2) *State taxes.* In the case of corporate bonds or other obligations containing an appropriate tax-free covenant, the corporation paying for someone else, pursuant to its agreement, a State tax or any tax other than a Federal tax may deduct such payment as interest paid on indebtedness.

(g) *Alien resident of Puerto Rico.* For purposes of this section the term “nonresident alien individual” includes an alien resident of Puerto Rico.

(h) *Other rules for withholding of tax under section 1451.* The rules for withholding stated in paragraphs (c) (2) and (3), (f), and (g) of § 1.1441-3 shall also apply for purposes of withholding the tax under this section.

[T.D. 6500, 25 FR 12076, Nov. 26, 1960, as amended by T.D. 7157, 36 FR 25228, Dec. 30, 1971]

### § 1.1451-2 Exemptions from withholding under section 1451.

(a) *Claiming personal exemptions.* Withholding under § 1.1451-1 from interest on bonds or other obligations of corporations issued before January 1, 1934, and containing a tax-free covenant shall not be required if there is filed with the withholding agent when presenting coupons for payment, or not later than February 1 of the following year, an ownership certificate on Form 1000 stating:

(1) In the case of a citizen or resident of the United States, that his taxable income does not exceed his deductions for personal exemptions allowed under section 151; or

(2) In the case of an estate or trust the fiduciary of which is a citizen or resident of the United States, that its

taxable income does not exceed the deduction for the personal exemption allowed under section 642(b).

(b) *Claiming residence in United States.* To claim residence in the United States for purposes of section 1451, see § 1.1441-5.

(c) *Other exemptions.* The exemptions allowed by paragraphs (d) and (h) of § 1.1441-4 shall also apply for purposes of section 1451.

[T.D. 6500, 25 FR 12077, Nov. 26, 1960, as amended by T.D. 6908, 31 FR 16774, Dec. 31, 1966]

### APPLICATION OF WITHHOLDING PROVISIONS

#### § 1.1461-1 Payment and returns of tax withheld.

(a) *Payment of withheld tax—(1) Deposits of tax.* Every withholding agent who withholds tax pursuant to chapter 3 of the Internal Revenue Code (Code) and the regulations under such chapter shall deposit such amount of tax with a Federal reserve bank or authorized financial institution as provided in § 1.6302-2(a). If for any reason the total amount of tax required to be returned for any calendar year pursuant to paragraph (b) of this section has not been deposited pursuant to § 1.6302-2, the withholding agent shall pay the balance of tax due for such year at such place as the Internal Revenue Service (IRS) shall specify. The tax shall be paid when filing the return required under paragraph (b)(1) of this section for such year, unless the IRS specifies otherwise.

(2) *Penalties for failure to pay tax.* For penalties and additions to the tax for failure to timely pay the tax required to be withheld under chapter 3 of the Code, see sections 6656, 6672, and 7202 and the regulations under those sections.

(b) *Income tax return—(1) General rule.* A withholding agent shall make an income tax return on Form 1042 (or such other form as the IRS may prescribe) for income paid during the preceding calendar year that the withholding agent is required to report on an information return on Form 1042-S (or such other form as the IRS may prescribe) under paragraph (c)(1) of this section. See section 6011 and § 1.6011-1(c). The

withholding agent must file the return on or before March 15 of the calendar year following the year in which the income was paid. The return must show the aggregate amount of income paid and tax withheld required to be reported on all the Forms 1042-S for the preceding calendar year by the withholding agent, in addition to such information as is required by the form and accompanying instructions. Withholding certificates or other statements or information provided to a withholding agent are not required to be attached to the return. A return must be filed under this paragraph (b)(1) even though no tax was required to be withheld during the preceding calendar year. The withholding agent must retain a copy of Form 1042 for the applicable statute of limitations on assessments and collection with respect to the amounts required to be reported on the Form 1042. See section 6501 and the regulations thereunder for the applicable statute of limitations. Adjustments to the total amount of tax withheld, as described in § 1.1461-2, shall be stated on the return as prescribed by the form and accompanying instructions.

(2) *Amended returns.* An amended return may be filed on a Form 1042 or such other form as the IRS may prescribe. An amended return must include such information as the form or accompanying instructions shall require, including, with respect to any information that has changed from the time of the filing of the return, the information that was shown on the original return and the corrected information.

(c) *Information returns*—(1) *Filing requirement*—(i) *In general.* A withholding agent (other than an individual who is not acting in the course of a trade or business with respect to a payment) must make an information return on Form 1042-S (or such other form as the IRS may prescribe) to report the amounts subject to reporting, as defined in paragraph (c)(2) of this section, that were paid during the preceding calendar year. Notwithstanding the preceding sentence, any person that withholds or is required to withhold an amount under sections 1441, 1442, or 1443 must file a Form 1042-S for

the payment withheld upon whether or not that person is engaged in a trade or business and whether or not the payment is an amount subject to reporting. A Form 1042-S shall be prepared for each recipient of an amount subject to reporting. The Form 1042-S shall be prepared in such manner as the form and accompanying instructions prescribe. One copy of the Form 1042-S shall be filed with the IRS on or before March 15 of the calendar year following the year in which the amount subject to reporting was paid. It shall be filed with a transmittal form as provided in the instructions to the Form 1042-S and to the transmittal form. Withholding certificates, documentary evidence, or other statements or documentation provided to a withholding agent are not required to be attached to the form. Another copy of the Form 1042-S must be furnished to the recipient for whom the form is prepared (or any other person, as required under this paragraph (c) or the instructions to the form) on or before March 15 of the calendar year following the year in which the amount subject to reporting was paid. The withholding agent must retain a copy of each Form 1042-S for the statute of limitations on assessment and collection applicable to the Form 1042 to which the Form 1042-S relates.

(ii) *Recipient*—(A) *Defined.* For purposes of this section, the term *recipient* means—

(1) A beneficial owner as defined in § 1.1441-1(c)(6), including a foreign estate or a foreign complex trust, as defined in § 1.1441-1(c)(25);

(2) A qualified intermediary as defined in § 1.1441-1(e)(5)(ii);

(3) A withholding foreign partnership as defined in § 1.1441-5(c)(2) or a withholding foreign trust under § 1.1441-5(e)(5)(v);

(4) An authorized foreign agent as defined in § 1.1441-7(c);

(5) A U.S. branch that is treated as a U.S. person under § 1.1441-1(b)(2)(iv)(A);

(6) A nonwithholding foreign partnership or a foreign simple trust as defined in § 1.1441-1(c)(24), but only to the extent the income is (or is treated as) effectively connected with the conduct of a trade or business in the United States by such entity;

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(7) A payee, as defined in § 1.1441-1(b)(2) that is presumed to be a foreign person under the presumption rules of § 1.1441-1(b)(3); 1.1441-5(d) or (e)(6), or 1.6049-5(d); and

(8) Any other person as required on Form 1042-S or the instructions to the form.

(B) *Persons that are not recipients.* A recipient does not include—

(1) A nonqualified intermediary;

(2) A payment to a wholly-owned entity that is disregarded under § 301.7701-2(c)(2) of this chapter as an entity separate from its owner;

(3) A flow-through entity, as defined in § 1.1441-1(c)(23) (to the extent it is receiving amounts subject to reporting other than income effectively connected with the conduct of a trade or business in the United States); and

(4) A U.S. branch described in § 1.1441-1(b)(2)(iv) that is not treated as a U.S. person under that section.

(2) *Amounts subject to reporting—(i) In general.* Subject to the exceptions described in paragraph (c)(2)(ii) of this section, amounts subject to reporting on Form 1042-S are amounts paid to a foreign payee (including persons presumed to be foreign) that are amounts subject to withholding as defined in § 1.1441-2(a). Amounts subject to reporting include amounts subject to withholding even if no amount is deducted and withheld from the payment because of a treaty or Internal Revenue Code exception to taxation or because an amount withheld was reimbursed to the payee under the adjustment procedures of § 1.1461-2. In addition, amounts subject to reporting include any amounts paid to a foreign payee on which a withholding agent withheld an amount (either under chapter 3 of the Internal Revenue Code or section 3406) whether or not the amount is subject to withholding. Amounts subject to reporting include, but are not limited to, the following items—

(A) The entire amount of a corporate distribution (whether actual or deemed) irrespective of any estimate of the portion of the distribution that represents a taxable dividend;

(B) Interest, including the portion of a notional principal contract payment that is characterized as interest. Interest shall also be reported on Form 1042-

S if it is bank deposit interest paid to nonresident alien individuals as required under § 1.6049-8;

(C) Rents;

(D) Royalties;

(E) Compensation for dependent and independent personal services performed in the United States;

(F) Annuities;

(G) Pension distributions and other deferred income;

(H) Gambling winnings that are not exempt from tax under section 871(j);

(I) Income from the cancellation of indebtedness unless the withholding agent is unrelated to the debtor and does not have knowledge of the facts that give rise to the payment (see § 1.1441-2(d));

(J) Amounts that are (or are presumed to be) effectively connected with the conduct of a trade or business in the United States (including deposit interest as defined in sections 871(i)(2)(A) and 881(d)) even if no withholding certificate is required to be furnished by the payee or beneficial owner. In the case of amounts paid on a notional principal contract described in § 1.1441-4(a)(3) that are presumed to be effectively connected with the conduct of a trade or business in the United States, the amount required to be reported is limited to the amount of cash paid from the notional principal contract;

(K) Scholarship, fellowship, or grant income and compensation for personal services that is not excludible from gross income under section 117 (whether or not the taxable scholarship, fellowship, grant income, or compensation for personal services is exempt from tax under an income tax treaty) paid to foreign students, trainees, teachers, or researchers;

(L) Amounts paid to foreign governments, international organizations, or the Bank for International Settlements, whether or not documentation must be provided; and

(M) Original issue discount paid on the redemption of an OID obligation. The amount to be reported is the amount of OID includible in the gross income of the holder of the obligation, if known, or, if not known, the total

amount of original issue discount determined as if the holder held the obligation from its original issuance. A withholding agent may determine the total amount of OID by using the most recently published "List of Original Issue Discount Instruments," (Publication 1212, available from the IRS Forms Distribution Centers).

(ii) *Exceptions to reporting.* The amounts listed in this paragraph (c)(2)(ii) are not required to be reported on Form 1042-S—

(A) Interest (including original issue discount) that is deposit interest under sections 871(i)(2)(A) and 881(d) and that is not effectively connected with the conduct of a trade or business in the United States, unless reporting is required under § 1.6049-8 (regarding payments to certain foreign residents) or is interest that is effectively connected with the conduct of a trade or business in the United States;

(B) Interest or original issue discount on certain short-term obligations, described in section 871(g)(1)(B) or 881(a)(3);

(C) Interest paid on obligations sold between interest payment dates and the portion of the purchase price of an OID obligation that is sold or exchanged in a transaction other than a redemption, unless the sale or exchange is part of a plan, the principal purpose of which is to avoid tax and the withholding agent has actual knowledge or reason to know of such plan (see § 1.1441-2(a)(5) and (6));

(D) Any item required to be reported on a Form W-2, including an item required to be shown on Form W-2 solely by reason of § 1.6041-2 (relating to return of information for payments to employees) or § 1.6052-1 (relating to information regarding payment of wages in the form of group-term life insurance);

(E) Any item required to be reported on Form 1099, and such other forms as are prescribed pursuant to the information reporting provisions of sections 6041 through 6050P and the regulations under those sections;

(F) Amounts paid on a notional principal contract described in § 1.1441-4(a)(3)(i) that are not effectively connected with the conduct of a trade or business in the United States (or not

treated as effectively connected pursuant to § 1.1441-4(a)(3)(ii));

(G) Amounts required to be reported on Form 8288 (U.S. Withholding Tax Return for Dispositions by Foreign Persons of U.S. Real Property Interests) or Form 8804 (Annual Return for Partnership Withholding Tax (section 1446)). A withholding agent that must report a distribution partly on a Form 8288 or 8804 and partly on a Form 1042-S may elect to report the entire amount on a Form 8288 or 8804;

(H) Interest (including original issue discount) paid with respect to foreign-targeted registered obligations described in § 1.871-14(e)(2) to the extent the documentation requirements described in § 1.871-14(e)(3) and (4) are required to be satisfied (taking into account the provisions of § 1.871-14(e)(4)(ii), if applicable);

(I) Interest on a foreign targeted bearer obligation (see §§ 1.1441-1(b)(4)(i) and 1.1441-2(a));

(J) Gain described in section 301(c)(3); and

(K) Amounts described in § 1.1441-1(b)(4)(xviii) (dealing with certain amounts paid by the U.S. government).

(3) *Required information.* The information required to be furnished under this paragraph (c)(3) shall be based upon the information provided by or on behalf of the recipient of an amount subject to reporting (as corrected and supplemented based on the withholding agent's actual knowledge) or the presumption rules of §§ 1.1441-1(b)(3), 1.1441-4(a); 1.1441-5(d) and (e); 1.1441-9(b)(3) or 1.6049-5(d). The Form 1042-S must include the following information, if applicable—

(i) The name, address, and taxpayer identifying number of the withholding agent;

(ii) A description of each category of income paid based on the income codes provided on the form (e.g., interest, dividends, royalties, etc.) and the aggregate amount in each category expressed in U.S. dollars;

(iii) The rate of withholding applied or the basis for exempting the payment from withholding (based on exemption codes provided on the form);

(iv) The name and address of the recipient;

(v) The name and address of any non-qualified intermediary, flow-through entity, or U.S. branch as described in § 1.1441-1(b)(2)(iv) (other than a branch that is treated as a U.S. person) to which the payment was made;

(vi) The taxpayer identifying number of the recipient if required under § 1.1441-1(e)(4)(vii) or if actually known to the withholding agent making the return;

(vii) The taxpayer identifying number of a nonqualified intermediary or flow-through entity (to the extent it is not a recipient) or other flow-through entity to the extent it is known to the withholding agent;

(viii) The country (based on the country codes provided on the form) of the recipient and of any nonqualified intermediary or flow-through entity the name of which appears on the form; and

(ix) Such information as the form or the instructions may require in addition to, or in lieu of, information required under this paragraph (c)(3).

(4) *Method of reporting*—(i) *Payments by U.S. withholding agents to recipients.* A withholding agent that is a U.S. person (other than a foreign branch of a U.S. person that is a qualified intermediary as defined in § 1.1441-1(e)(5)(ii)) and that makes payments of amounts subject to reporting on Form 1042-S must file a separate Form 1042-S for each recipient who receives such amount. For purposes of this paragraph (c)(4), a U.S. person includes a U.S. branch described in § 1.1441-1(e)(2)(iv)(A) or (E) that agrees to be treated as a U.S. person. Except as may otherwise be required on Form 1042-S or the instructions to the form, only payments for which the income code, exemption code, withholding rate and recipient code are the same may be reported on a single Form 1042-S. See paragraph (c)(4)(ii) of this section for reporting of payments made to a person that is not a recipient.

(A) *Payments to beneficial owners.* If a U.S. withholding agent makes a payment directly to a beneficial owner it must complete Form 1042-S treating the beneficial owner as the recipient. Under the grace period rule of § 1.1441-1(b)(3)(iv), a U.S. withholding agent may, under certain circumstances,

treat a payee as a foreign person while the withholding agent awaits a valid withholding certificate. A U.S. withholding agent who relies on the grace period rule to treat a payee as a foreign person must file a Form 1042-S to report all payments on Form 1042-S during the period that person was presumed to be foreign even if that person is later determined to be a U.S. person based on appropriate documentation or is presumed to be a U.S. person after the grace period ends. In the case of joint owners, a withholding agent may provide a single Form 1042-S made out to the owner whose status the U.S. withholding agent relied upon to determine the applicable rate of withholding. If, however, any one of the owners requests its own Form 1042-S, the withholding agent must furnish a Form 1042-S to the person who requests it. If more than one Form 1042-S is issued for a single payment, the aggregate amount paid and tax withheld that is reported on all Forms 1042-S cannot exceed the total amounts paid to joint owners and the tax withheld thereon.

(B) *Payments to a qualified intermediary, a withholding foreign partnership, or a withholding foreign trust.* A U.S. withholding agent that makes payments to a qualified intermediary (whether or not the qualified intermediary assumes primary withholding responsibility), a withholding foreign partnership, or a withholding foreign trust shall complete Forms 1042-S treating the qualified intermediary or withholding foreign partnership as the recipient. The U.S. withholding agent must complete a separate Form 1042-S for each withholding rate pool. A withholding rate pool is a payment of a single type of income (determined by the income codes on Form 1042-S) that is subject to a single rate of withholding. A qualified intermediary that does not assume primary withholding responsibility on all payments it receives provides information regarding the proportions of income subject to a particular withholding rate to the withholding agent on a withholding statement associated with a qualified intermediary withholding certificate. A qualified intermediary may provide a

U.S. withholding agent with information regarding withholding rate pools for U.S. non-exempt recipients (as defined under § 1.1441-1(c)(21)). Amounts paid with respect to such withholding rate pools must be reported on Form 1099 completed for each U.S. non-exempt recipient to the extent they are subject to Form 1099 reporting. These amounts must not be reported on Form 1042-S. In addition, the qualified intermediary may provide the U.S. withholding agent information regarding withholding rate pools for U.S. persons that are exempt recipients as defined under § 1.1441-1(c)(20). If such information is provided, a U.S. withholding agent should not report such withholding rate pools on Form 1042-S.

(C) *Amounts paid to U.S. branches treated as U.S. persons.* A U.S. withholding agent making a payment to a U.S. branch of a foreign person described in § 1.1441-1(b)(2)(iv) shall complete Form 1042-S as follows—

(1) If the branch has provided the U.S. withholding agent with a withholding certificate that evidences its agreement with the withholding agent to be treated as a U.S. person, the U.S. withholding agent files Forms 1042-S treating the U.S. branch as the recipient;

(2) If the branch has provided the U.S. withholding agent with a withholding certificate that transmits information regarding beneficial owners, qualified intermediaries, withholding foreign partnerships, or other recipients, the U.S. withholding agent must complete a separate Form 1042-S for each recipient whose documentation is associated with the U.S. branch's withholding certificate; or

(3) If the U.S. withholding agent cannot reliably associate a payment with a valid withholding certificate from the U.S. branch, it shall treat the U.S. branch as the recipient and report the income as effectively connected with the conduct of a trade or business in the United States.

(D) *Amounts paid to an authorized foreign agent.* If a U.S. withholding agent makes a payment to an authorized foreign agent, the withholding agent files Forms 1042-S treating the authorized foreign agent as the recipient, provided that the authorized foreign agent re-

ports the payments on Forms 1042-S to each recipient to which it makes payments. If the authorized foreign agent fails to report the amounts paid on Forms 1042-S for each recipient to which the payment is made, the U.S. withholding agent remains responsible for such reporting.

(E) *Dual Claims.* A U.S. withholding agent may make a payment to a foreign entity that is simultaneously claiming a reduced rate of tax on its own behalf for a portion of the payment and a reduced rate on behalf of persons in their capacity as interest holders in that entity on the remaining portion. See § 1.1441-6(b)(2)(iii). If the claims are consistent and the withholding agent accepts the multiple claims, the withholding agent must file a separate Form 1042-S for those payments for which the entity is treated as the beneficial owner and Forms 1042-S for each of the interest holder in the entity for which the interest holder is treated as the recipient. For those payments for which the interest holder in an entity is treated as the recipient, the U.S. withholding agent shall prepare the Form 1042-S in the same manner as a payment made to a non-qualified intermediary or flow-through entity as set forth in paragraph (c)(4)(ii) of this section. If the claims are consistent but the withholding agent has not chosen to accept the multiple claims, or if the claims are inconsistent, the withholding agent must file a separate Form 1042-S for the person or persons it has chosen to treat as the recipients.

(ii) *Payments made by U.S. withholding agents to persons that are not recipients—*

(A) *Amounts paid to a nonqualified intermediary, a flow-through entity, and certain U.S. branches.* If a U.S. withholding agent makes a payment to a non-qualified intermediary, a flow-through entity, or a U.S. branch described in § 1.1441-1(b)(2)(iv) (other than a branch that agrees to be treated as a U.S. person), it must complete a separate Form 1042-S for each recipient to the extent the withholding agent can reliably associate a payment with valid documentation (within the meaning of § 1.1441-1(b)(2)(vii)) from the recipient which is associated with the withholding certificate provided by the

nonqualified intermediary, flow-through entity, or U.S. branch. If a payment is made through tiers of nonqualified intermediaries or flow-through entities, the withholding agent must nevertheless complete Form 1042-S for the recipients to the extent it can reliably associate the payment with documentation from the recipients. A withholding agent that is completing a Form 1042-S for a recipient that receives a payment through a nonqualified intermediary, a flow-through entity, or a U.S. branch must include on the Form 1042-S the name of the nonqualified intermediary or flow-through entity from which the recipient directly receives the payment. If a U.S. withholding agent cannot reliably associate the payment, or any portion of the payment, with valid documentation from a recipient either because no such documentation has been provided or because the nonqualified intermediary, flow-through entity, or U.S. branch has failed to provide sufficient allocation information so that the withholding agent can associate the payment, or any portion thereof, with valid documentation, then the withholding agent must report the payments as made to an unknown recipient in accordance with the appropriate presumption rules for that payment. Thus, if under the presumption rules the payment is presumed to be made to a foreign person, the withholding agent must generally withhold 30 percent of the payment and report the payment on Form 1042-S made out to an unknown recipient and shall also include the name of the nonqualified intermediary or flow-through entity that received the payment on behalf of the unknown recipient. If, however, the recipient is presumed to be a U.S. non-exempt recipient (as defined in § 1.1441-1(c)(21)), the withholding agent must withhold on the payment as required under section 3406 and report the payment as made to an unknown recipient on the appropriate Form 1099 as required under chapter 61 of the Internal Revenue Code.

(B) *Disregarded entities.* If a U.S. withholding agent makes a payment to a disregarded entity but receives a valid withholding certificate or other documentary evidence from a foreign per-

son that is the single owner of a disregarded entity, the withholding agent must file a Form 1042-S treating the foreign single owner as the recipient. The taxpayer identifying number on the Form 1042-S, if required, must be the foreign single owner's TIN.

(iii) *Reporting by qualified intermediaries, withholding foreign partnerships, and withholding foreign trusts.* A qualified intermediary, a withholding foreign partnership, and a withholding foreign trust shall report payments on Form 1042-S as provided in their agreements with the IRS and the instructions to the form.

(iv) *Reporting by a nonqualified intermediary, flow-through entity, and certain U.S. branches.* A nonqualified intermediary, flow-through entity, or U.S. branch described in § 1.1441-1(e)(2)(iv) (other than a U.S. branch that is treated as a U.S. person) is a withholding agent and must file Forms 1042-S for amounts paid to recipients in the same manner as a U.S. withholding agent. A Form 1042-S will not be required, however, if another withholding agent has reported the same amount to the same recipient for which the nonqualified intermediary, flow-through entity, or U.S. branch would be required to file a return and the entire amount that should be withheld from such payment has been withheld. A nonqualified intermediary, flow-through entity, or U.S. branch must report payments made to recipients to the extent it has failed to provide the appropriate documentation to another withholding agent together with the information required for that withholding agent to reliably associate the payment with the recipient documentation or to the extent it knows, or has reason to know, that less than the required amount has been withheld. A nonqualified intermediary or flow-through entity that is required to report a payment on Form 1042-S must follow the same rules as apply to a U.S. withholding agent under paragraph (c)(4)(i) and (ii) of this section.

(v) *Pro rata reporting for allocation failures.* If a nonqualified intermediary, flow-through entity, or U.S. branch described in § 1.1441-1(b)(2)(iv) (other than a branch treated as a U.S. person) that uses the alternative procedures of

§ 1.1441-1(e)(3)(iv)(D) fails to provide information sufficient to allocate the amount subject to reporting paid to a withholding rate pool to the payees identified for that pool, then the withholding agent shall report the payment in accordance with the rule provided in § 1.1441-1(e)(3)(iv)(D)(6).

(vi) *Other withholding agents.* Any person that is a withholding agent not described in paragraph (c)(4)(i), (iii), or (iv) of this section (e.g., a foreign person that is not a qualified intermediary, flow-through entity, or U.S. branch) shall file Form 1042-S in the same manner as a U.S. withholding agent and in accordance with the instructions to the form.

(5) *Magnetic media reporting.* A withholding agent that makes 250 or more Form 1042-S information returns for a taxable year must file Form 1042-S returns on magnetic media. See § 301.6011-2 of this chapter for requirements applicable to a withholding agent that files Forms 1042-S with the IRS on magnetic media and publications of the IRS relating to magnetic media filing.

(d) *Report of taxpayer identifying numbers.* When so required under procedures that the IRS may prescribe in published guidance (see § 601.601(d)(2) of this chapter), a withholding agent must attach to the Form 1042 a list of all the taxpayer identifying numbers (and corresponding names) that have been furnished to the withholding agent and upon which the withholding agent has relied to grant a reduced rate of withholding and that are not otherwise required to be reported on a Form 1042-S under the provisions of this section.

(e) *Indemnification of withholding agent.* A withholding agent is indemnified against the claims and demands of any person for the amount of any tax it deducts and withholds in accordance with the provisions of chapter 3 of the Code and the regulations under that chapter. A withholding agent that withholds based on a reasonable belief that such withholding is required under chapter 3 of the Code and the regulations under that chapter is treated for purposes of section 1461 and this

paragraph (e) as having withheld tax in accordance with the provisions of chapter 3 of the Code and the regulations under that chapter. In addition, a withholding agent is indemnified against the claims and demands of any person for the amount of any payments made in accordance with the grace period provisions set forth in § 1.1441-1(b)(3)(iv). This paragraph (e) does not apply to relieve a withholding agent from tax liability under chapter 3 of the Code or the regulations under that chapter.

(f) *Amounts paid not constituting gross income.* Any amount withheld in accordance with § 1.1441-3 shall be reported and paid in accordance with this section, even though the amount paid to the beneficial owner may not constitute gross income in whole or in part. For this purpose, a reference in this section and § 1.1461-2 to an amount shall, where appropriate, be deemed to refer to the amount subject to withholding under § 1.1441-3.

(g) *Extensions of time to file Forms 1042 and 1042-S.* The IRS may grant an extension of time in which to file a Form 1042 or a Form 1042-S. Form 2758, Application for Extension of Time to File Certain Excise, Income, Information, and Other Returns (or such other form as the IRS may prescribe), must be used to request an extension of time for a Form 1042. Form 8809, Request for Extension of Time to File Information Returns (or such other form as the IRS may prescribe) must be used to request an extension of time for a Form 1042-S. The request must contain a statement of the reasons for requesting the extension and such other information as the forms or instructions may require. It must be mailed or delivered not later than March 15 of the year following the end of the calendar year for which the return will be filed.

(h) *Penalties.* For penalties and additions to the tax for failure to file returns or furnish statements in accordance with this section, see sections 6651, 6662, 6663, 6721, 6722, 6723, 6724(c), 7201, 7203, and the regulations under those sections.



(i) *Effective date.* This section shall apply to returns required for payments made after December 31, 2000.

[T.D. 8734, 62 FR 53467, Oct. 14, 1997, as amended by T.D. 8804, 63 FR 72188, Dec. 31, 1998; T.D. 8856, 64 FR 73412, Dec. 30, 1999; T.D. 8881, 65 FR 32201, 32212, May 22, 2000; 66 FR 18189, Apr. 6, 2001]

**§ 1.1461-2 Adjustments for overwithholding or underwithholding of tax.**

(a) *Adjustments of overwithheld tax—*  
(1) *In general.* A withholding agent that has overwithheld under chapter 3 of the Internal Revenue Code (Code) and made a deposit of the tax as provided in § 1.6302-2(a) may adjust the overwithheld amount either pursuant to the reimbursement procedure described in paragraph (a)(2) of this section or pursuant to the set-off procedure described in paragraph (a)(3) of this section. Adjustments under this paragraph (a) may only be made within the time prescribed under paragraph (a) (2) or (3) of this section. After such time, a refund of the amount overwithheld can only be claimed by the beneficial owner with the Internal Revenue Service (IRS) pursuant to the procedures described in chapter 65 of the Code. For purposes of this section, the term overwithholding means any amount actually withheld (determined before application of the adjustment procedures under this section) from an item of income pursuant to chapter 3 of the Code or the regulations thereunder in excess of the actual tax liability due, regardless of whether such overwithholding was in error or appeared correct at the time it occurred.

(2) *Reimbursement of tax—*(i) *General rule.* Under the reimbursement procedure, the withholding agent repays the beneficial owner or payee for the amount overwithheld. In such a case, the withholding agent may reimburse itself by reducing, by the amount of tax actually repaid to the beneficial owner or payee, the amount of any deposit of tax made by the withholding agent under § 1.6302-2(a)(1)(iii) for any subsequent payment period occurring before the end of the calendar year following the calendar year of overwithholding. Any such reduction that occurs for a payment period in the calendar year following the calendar year

of overwithholding shall be allowed only if—

(A) The withholding agent states, on a timely filed (not including extensions) Form 1042-S for the calendar year of overwithholding, the amount of tax withheld and the amount of any actual repayment; and

(B) The withholding agent states on a timely filed (not including extensions) Form 1042 for the calendar year of overwithholding, that the filing of the Form 1042 constitutes a claim for credit in accordance with § 1.6414-1.

(ii) *Record maintenance.* If the beneficial owner is repaid an amount of withholding tax under the provisions of this paragraph (a)(2), the withholding agent shall keep as part of its records a receipt showing the date and amount of repayment and the withholding agent must provide a copy of such receipt to the beneficial owner. For this purpose, a canceled check or an entry in a statement is sufficient provided that the check or statement contains a specific notation that it is a refund of tax overwithheld.

(3) *Set-offs.* Under the set-off procedure, the withholding agent may repay the beneficial owner or payee by applying the amount overwithheld against any amount which otherwise would be required under chapter 3 of the Code or the regulations thereunder to be withheld from income paid by the withholding agent to such person before the earlier of the due date (without regard to extensions) for filing the Form 1042-S for the calendar year of overwithholding or the date that the Form 1042-S is actually filed with the IRS. For purposes of making a return on Form 1042 or 1042-S (or an amended form) for the calendar year of overwithholding and for purposes of making a deposit of the amount withheld, the reduced amount shall be considered the amount required to be withheld from such income under chapter 3 of the Code and the regulations thereunder.

(4) *Examples.* The principles of this paragraph (a) are illustrated by the following examples:

*Example 1.* (i) N is a nonresident alien individual who is a resident of the United Kingdom. In December 2001, a domestic corporation C pays a dividend of \$100 to N, at which time C withholds \$30 and remits the balance